

Furniture Brands

INTERNATIONAL

MANCHESTER
BUSINESS SCHOOL

-6 SEP 1996

LIBRARY



FINANCIAL HIGHLIGHTS

[In thousands, except per share, employee and statistical data]

Year Ended December 31	1995 Pro Forma ⁴	1995 Historical	1994 Historical
From continuing operations:			
Net sales	\$1,624,116	\$1,073,889	\$1,072,696
Net earnings ¹	32,662	29,463	27,933
As a percentage of net sales	2.0%	2.7%	2.6%
Net earnings – as adjusted ²	45,132	41,933	40,984
As a percentage of net sales	2.8%	3.9%	3.8%
Per share of common stock:			
Net earnings ¹	\$ 0.62	\$ 0.56	\$ 0.54
Net earnings – as adjusted ²	\$ 0.86	\$ 0.80	\$ 0.79
Financial condition at year end³:			
Working capital		\$ 455,036	\$ 308,323
Current ratio		4.4 to 1	4.2 to 1
Total assets		1,291,739	881,735
Total long-term debt		723,679	426,253
Shareholders' equity		301,156	275,394
Average common shares – fully diluted		52,317	51,506
Number of employees		20,700	13,800

¹ Net earnings from continuing operations before gain on insurance settlement, net of taxes.

² Adjusted to remove depreciation and amortization related to fair value adjustments, net of taxes.

³ 1995 balances reflect the acquisition of Thomasville Furniture Industries, Inc., on December 29, 1995.

⁴ Pro forma to reflect the acquisition of Thomasville as if such transaction occurred on January 1, 1995.

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LETTER TO OUR SHAREHOLDERS

MANCHESTER
BUSINESS SCHOOL

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LIBRARY

The Company made the first of several major strategic shifts in 1994 by spinning off all footwear operations and focusing our future entirely on the furniture industry. As 1995 ended, we made a second major move when we acquired Thomasville Furniture Industries, Inc. This addition established the Company as the largest and most profitable residential furniture manufacturer in the country.

In recognition of the transformation of the Company from a diversified multi-industry conglomerate into a focused, pure-play furniture manufacturer, the Board of Directors authorized a change of the corporate name to Furniture Brands International, Inc., effective March 1, 1996. The corporate name change reflects our singular commitment to the furniture industry, our outstanding furniture brands — Broyhill, Lane and Thomasville — and our belief that a major new market is opening for our products outside the United States.

As stated previously, effective December 29, 1995, the Company completed the acquisition of Thomasville Furniture Industries, Inc. The purchase, for approximately \$331 million in cash, makes the Company the largest and most profitable residential furniture manufacturer in the United States with combined 1995 revenues of over \$1.6 billion and earnings from operations, excluding the impact of the 1992 asset revaluation (i.e., fresh-start accounting), of over \$125 million. The acquisition combines three of the most highly respected furniture brands — Broyhill, Lane and Thomasville — into a company that has superior marketing, product development and distribution, and an extremely high-quality group of

employees. The combination provides a great strategic fit with Thomasville products filling important voids in our product offerings. In addition, the acquisition would have been accretive to the Company's net earnings per common share on a pro forma basis by over 10 percent for 1995 — unusual for a major strategic acquisition.

In conjunction with the Thomasville acquisition, the Company completed a refinancing of its long-term debt. A new \$630 million senior secured credit agreement was entered into

with a syndicate of financial institutions. The credit agreement consists of three term loan facilities totaling \$450 million and a \$180 million revolving credit facility. In addition, the Company's existing receivables securitization facility was increased to \$225 million.

To reduce indebtedness incurred as a result of the Thomasville acquisition, as well as to increase the number of common shares in

the public market which will promote liquidity among current and future shareholders, the Company completed an equity offering on March 1, 1996. The offering of 10 million shares generated net cash proceeds of approximately \$82 million, all of which was used to repay a portion of the indebtedness under the Company's secured credit agreement. The successful completion of this equity offering demonstrates the favorable response we have seen to the initiatives the Company has taken over the last several years to transform itself into a world-class furniture manufacturer.

With respect to performance on a consolidated basis, excluding the acquisition of Thomasville which occurred on the last business day of 1995, the Company's net sales were

In 1995, the Company acquired Thomasville Furniture Industries, Inc., completing several strategic shifts begun in the prior year to focus the Company entirely on the furniture industry. Now the largest and most profitable residential furniture manufacturer in the country, Furniture Brands International will continue to strengthen its position, while guiding the Company toward achievement of its long-term sales and profit growth objectives.

\$1.07 billion, slightly ahead of those reported in 1994. Net earnings from continuing operations, before a special gain from an insurance settlement pertaining to the 1994 explosion and fire which destroyed a particleboard plant, as well as an extraordinary item relating to the Company's refinancing of its long-term debt, were \$29.5 million, compared to \$27.9 million in last year's same period, an increase of 5.5%. The Company's ability to produce a modest sales and earnings increase for the year is a strong endorsement of our gross profit management philosophy and a recognition of the outstanding operating management throughout the corporation. This performance strengthens our position as the profit leader in the residential furniture industry.

Net earnings per common share, from continuing operations on a fully diluted basis and before the gain on insurance settlement and extraordinary item, were \$0.56 for 1995, compared to \$0.54 reported for 1994. Excluding

depreciation and amortization resulting from the 1992 asset revaluation (i.e., fresh-start accounting), net earnings per common share from continuing operations before the insurance gain and extraordinary item would have been \$0.80 and \$0.79 for 1995 and 1994, respectively.

Incoming orders for 1995 were essentially flat with the prior year. Order rates in the fourth quarter and backlogs at year end were both down moderately due substantially to a change in reporting methodology at certain of the Company's operating units, as opposed to a business trend.

1995 was a difficult year in the furniture industry and required close adherence by our operating management to the principles of gross profit management — our primary operating philosophy. The implementation of the 12 building blocks of gross profit management allowed the Company to achieve

an increase in net earnings and maintain its working capital at levels which generated over \$90 million in operating cash flow despite a flat U.S. economy and soft industry conditions. Approximately \$24 million was used for debt repayments, and approximately \$34 million was used in the financing of the Thomasville acquisition.

As reported, 1995 sales were slightly ahead of those in 1994, and they were adversely affected by industry-wide price discounting and promotional activity in response to weaker consumer demand for durable goods. The Company mini-

mized the impact of these industry conditions by introducing new products, continuing marketing support of its brand names, and concentrating on expanding its dedicated distribution network. New product offerings during 1995 included lifestyle collections targeted at today's consumers who live in a more casual atmosphere. Marketing programs included continued use of targeted marketing

techniques such as direct mail and customer assistance telemarketing. Consumer and trade advertising remain an important part of the marketing effort, ranging from print advertising in shelter magazines to regional and national television. The Company's dedicated distribution network of furniture centers and galleries was strengthened during 1995 with increased dealer participation and new programs designed to improve sales and retail profits.

Earnings from operations for 1995 reflected continued emphasis on gross profit management, reduction and control of operating expenses, and maintenance of optimal working capital levels. They were negatively impacted by the Company's desire to maintain manufacturing utilization rates at levels necessary to balance inventories with incoming orders. As a result, although earnings were affected by

The Building Blocks of Gross Profit Management

Sales

*New products
New customers
New markets
Pricing analysis*

Cost of Goods Sold

*Cost control
Cost reduction
Low-profit product review
Purchasing strategy
Capital utilization
People involvement
Management accountability
Contingency planning*

Gross Profit

unfavorable overhead absorption rates, operating cash flow was quite favorable due to strong working capital management. We were particularly encouraged by our operating profitability given the amount of manufacturing capacity that we have added over the last several years. The Company has constructed a new upholstery manufacturing facility, a state-of-the-art finishing system for wood furniture and, during 1995, a new particleboard plant which replaces one destroyed in a fire in 1994. As the industry recovers from a difficult 1995 environment, this new production capacity will provide us with increased sales and earnings potential. The growth in operating cash flow during 1995 allowed the Company to fund a substantial capital expenditure program, totaling approximately \$35 million. The Company remains dedicated to being a low-cost producer by investing in new manufacturing technologies, while maintaining existing facilities in peak condition.

We continue to work to maintain our position as the leader in the residential furniture industry. Our growth strategies include enhancing our brand names by continuing to increase our investment in innovative consumer advertising; expanding our dedicated distribution channels by attracting additional retailers in new and existing geographic markets; penetrating the growing international markets, particularly Canada, Europe, Japan and the Middle East; developing new, high margin products in growing prod-

uct areas such as motion furniture, entertainment centers and home office; and capitalizing on the Thomasville acquisition in a variety of ways. We will continue to lead the industry in profitability by emphasizing the fundamentals of gross profit management which includes the involvement and accountability of all our employees.

Today, Furniture Brands International is the largest and most profitable residential furniture manufacturer in the country. The employee team is focused on continuing to strengthen our position and looks forward with enthusiasm to

working together with our suppliers and customers in this endeavor.

We thank you for the confidence you have shown in our team. We continue to recognize our responsibility to increase shareholder value and, by actions taken in 1995, believe we have improved the overall value while positioning the Company to achieve its long-term sales and profit growth objectives. We look

forward to the challenges and opportunities in 1996.

Sincerely,



Richard B. Loynd
Chairman of the Board and
Chief Executive Officer

Richard B. Loynd, Chairman and Chief Executive Officer, with Furniture Brands' team of operating company and corporate executives.
From left to right are K. Scott Tyler, Jr., President, The Lane Company, Incorporated; Brent B. Kincaid, President, Broyhill Furniture Industries, Inc.; Frederick B. Starr, President, Thomasville Furniture Industries, Inc.; W.G. Holliman, President, Action Industries, Inc.; Richard B. Loynd; and David P. Howard, Vice President and Chief Financial Officer, Furniture Brands International.





BROYHILL FURNITURE INDUSTRIES, INC.

Based in Lenoir, N.C., Broyhill is the largest residential furniture maker in the U.S. that manufactures under a single brand name. Its 90 percent brand name recognition is the highest in the industry. These factors make Broyhill a consumer favorite in providing high-quality products in the largest furniture segment: mid-priced bedroom, dining room, upholstered and occasional furniture. ● Broyhill's wood furniture offerings consist primarily of bedroom, dining room and living room furniture, occasional tables, accent items and freestanding home entertainment centers. Upholstered products include sofas, love seats, sleep sofas, recliners, fully reclining upholstery, sectionals and chairs. The residential furniture divisions produce a wide range of furnishings in colonial, country, traditional, casual and contemporary styles. ● Building and maintaining high brand name awareness was a priority in the 1995 marketing strategy, and Broyhill's success in this effort was recognized not only by its own research but that of *Better Homes and Gardens* and *Elegant Bride* magazines. *Better Homes* found that 92.5 percent of readers recognized the name, and *Elegant Bride*'s nationwide survey found that Broyhill had the highest unaided name recognition of any residential furniture manufacturer. ● Successful marketing tactics included product "giveaways" on nationally syndicated game shows including *Wheel of Fortune*, *Price Is Right* and *Jeopardy*, as well as dealer-based promotions and an aggressive national print advertising campaign. The national advertising campaign continues to

Broyhill continues to build its high brand name

build brand awareness and drive customer traffic by featuring participating retailer locations and appealing to the consumer's desire for decorating assistance by showing beautifully styled room settings. ● One of many product highlights for 1995 was the Millwood Creek collection, a solid performer in the lifestyle category and one of the fastest-growing bedroom lines. The Fontana collection, which has been the best-selling furniture collection in the industry for the last three years, continued its stellar performance throughout the year. ● Widely recognized Broyhill trademarks include Broyhill, Broyhill Premier, Highland House and Ridgewood. The flagship Broyhill line concentrates on bedroom, dining room, upholstered and occasional furniture in the "good" and "better" price categories; Broyhill Premier enjoys a leading reputation for classically styled furniture collections in the "better" price category; Highland House manufactures upholstered products in the "better" category; and Ridgewood is a collection of solid pine casual furniture. ● Broyhill distributes its products through an extensive network of more than 6,200 retail locations, including more than 330 dedicated Broyhill Showcase Galleries and more than 410 dedicated Broyhill Furniture Centers with a combined display space of more than 3 million square feet. ● The gallery program alone contributes significantly to Broyhill's sales. Introduced to the industry more than 14 years ago, these galleries help consumers visualize a customized Broyhill room. ● Broyhill enjoys unparalleled dealer support and, for the third year in a row, the company was honored by *Home Furnishings Executive's* Annual Retailer Reader Opinion Survey with the ARROS "Recognition of Excellence" award. ● During 1995, Broyhill completed construction of a state-of-the-art particleboard manufacturing facility. The site joins a collection of 16 finished case goods and upholstery production and warehouse facilities totaling nearly 5 million square feet.



Crossroads, a European country collection, was a very successful introduction in 1995. Crafted from wormy maple solids and pin knotty cherry veneers, Crossroads is featured in national advertising during the first quarter of 1996.

The Fontana collection by Broyhill continues to be America's most popular and best-selling furniture collection. Its light pine finish and distinctive details appeal to a broad array of decorating tastes.



recognition with superior marketing and advertising



This traditional selection illustrates the expertise in wood-trimmed upholstery for which Broyhill is renowned. Broyhill is one of the few upholstery manufacturers which excels in producing wood-trimmed upholstery that coordinates with occasional furniture.

Highland House craftsmen produce fine, bench-made upholstery appealing to discriminating consumers. Generously scaled designs are beautifully tailored with distinctive fabric and decorative trim combinations to target the fashion-conscious customer.



The strength of Broyhill Premier is demonstrated by the Center Place dining room. Broyhill Premier offers retailers versatile and stylish collections targeted to consumers who are seeking the details and refinements usually found in products from high-end manufacturers.



A strong consumer advertising program has established Broyhill as the best-known brand of any full-line manufacturer. Stylish advertising featuring popular Broyhill collections appears in numerous consumer magazines such as *Better Homes and Gardens*, *House Beautiful* and *HOME*.

for furniture of excellent quality and exceptional value.



Addressing the evolving lifestyle needs of today's homes, Broyhill offers an extensive selection of home entertainment units such as this Fontana home theater. Broyhill also offers products for the home office and a complete line of fully reclining upholstered products.



THE LANE COMPANY, INCORPORATED

Regarded as one of the best-known names in the industry, Lane continues to strengthen its position, particularly in some of the most profitable niche markets. These niches include motion furniture, where Lane enjoys the #1 position; recliners, where Lane is #2; and in cedar chests, where the company dominates the market. This success is due to a variety of strengths, including a highly skilled work force, a diverse and strong distribution network, state-of-the-art technology, and seven stellar divisions aimed at higher priced, niche markets. ● To counter tough market conditions in 1995, Lane divisions turned to innovations and — critical to continuing product differentiation — brought in prominent designers to bring new perspectives to solid Lane concepts. ● For example, at Action Industries, Lane's largest division — motion furniture sales were bolstered by the exciting new Studio collection of apartment-size furniture including sofas, recliners and sectionals, all scaled to fit in smaller rooms. Other Action introductions include the Snuggler, a wide "chair-and-a-half" that folds out into a twin-size bed; and a glider recliner, engineered to produce the smoothest action yet in a chair that can recline farther than any on the market. It also is available with an optional swivel base. ● Riding a continued wave of consumer interest in Disney products, the Lane division introduced a Disney collection utilizing the popular Mickey icon on cedar chests, occasional tables and benches. ● Responding to consumer and dealer demand for furniture to match changing

Lane has built on its reputation for high

spaces in the home, Lane, which manufactures from 10 finished goods plants, introduced a home office line designed for people having neither the room nor the desire for bulky office furniture. Lane also introduced two major collections: Hudson River Views, featuring designs indigenous to the area, and Marrakesh, capturing the romance of Morocco. ● Perhaps the most notable trend in new product development in 1995 was the continuation and/or addition of lines featuring well-known designers, such as the Venture division's Dakota Jackson collection of contemporary wicker pieces. At Lane Upholstery, New York designer Raymond Waites collaborated with Lane to introduce a sizable collection of upholstered furniture and fabrics. At the Hickory Chair division, designer Mark Hampton, whose clients have included the White House, brought his perspectives to a new European Country line that promises to garner strong consumer interest. ● Strong sales based on new designs also were reported by the Hickory Business Furniture (HBF) division, which manufactures wood and upholstered business furniture, and the Pearson division, which produces custom-tailored upholstered furniture. ● The first furniture manufacturer to establish a national advertising campaign, Lane is consistently one of the top three advertisers in the industry. Targeted print media in 1995 included *Architectural Digest*, *House Beautiful*, *Country Home*, *Country Living*, and other home decorating and women's magazines.



Hickory Business Furniture (HBF) had a record 1995. Innovative designs and concepts like this teleconference table, that comes wired for your electronic needs, keeps HBF in the forefront in quality office furniture.

Hickory Chair offers consumers many fine traditional collections, including its most famous – the historical James River collection, now in its 55th year.

There are over 1,750 styles in the Hickory Chair line for living rooms, dining rooms and bedrooms.



quality by combining state-of-the-art technology with



Venture's WeatherMaster collection continues to capture an increasing share of the market. The compelling benefit to the consumer is the patented cushions that are very comfortable yet allow water to pass right through for quick drying.

Under a new licensing agreement with Disney, Lane attracted a lot of attention at the October Furniture Market with a collection featuring the popular Mickey icon. More pieces are on the drawing board for 1996.



Many retailers consider Pearson a leader in traditional designs and fabrics, capturing looks that are popular today. The trend now is toward comfortable, casual living as depicted in this national ad setting.



Editors look to Lane as an industry leader for new and exciting merchandise to share with their readers. Lane's Hudson River Views collection was selected for Country Living's House of the Year in their February 1996 issue. Styles shown are from Lane, Lane Upholstery and Venture.

innovative designs of furniture in profitable niches.



Lane Upholstery joins Lane in the launch of all major collections. Being able to offer both wood and upholstered product for a "complete collection" is an advantage Lane has over many of its competitors. Hudson River Views debuted in April 1995.



ACTION FURNITURE BY LANE

Action's 25th anniversary year was spent in familiar territory: leading the growing motion furniture segment with products that span the style spectrum with comfort and function. Based in Tupelo, Miss., Action Industries, Inc., a subsidiary of Lane, is a pioneer in manufacturing innovative reclining chairs, motion furniture and sleep sofas — the fastest-growing segment of the furniture industry. ● The #1 manufacturer of motion furniture and #2 in recliners, Action serves consumers through 2,700 retailers with 7,000 store locations. The company operates five modern manufacturing facilities with 2 million square feet of production space. ● Highlights for 1995 — that will reap benefits in 1996 and beyond — include products that reflect Action's continuous innovation and use of state-of-the-art proprietary technology. Among these are the Snuggler series, the Premiere Glider Recliner and new motion furniture for the Home Theater market. ● The Snuggler, a "chair-and-a-half" with a twin-size bed and storage ottoman, was a tremendous success at the Fall Furniture Market in High Point, N.C. This collection of small sleep sofas was designed for areas where space is a consideration (or where "snuggling" is a priority!). It includes a sturdy, five-inch thick innerspring mattress that rolls out easily on casters. ● The Premiere Glider Recliner is an example of Action's innovative technology making vast improvements to a standard design. For example, using a steel ball bearing instead of the plastic bushings common to gliders made by other manufacturers vastly

Action continues to introduce innovative lines of

improved the gliding action of the recliner, making the Premiere Glider Recliner the smoothest on the market. Action also added an extra-wide base to the Glider to add to stability and engineered a gravity-operating mechanism for ease of opening and layout. Action set out to build a better glider and accomplished it with better engineering and the best components available. That's why it's "Premiere". ● With more and more consumers planning space around home entertainment centers, Action is responding with functional seating sectionals with entertainment in mind — regardless of the room size. The Studio collection of motion furniture was introduced for consumers who expect furniture with the functions of drop-down tables, storage areas, etc., but do not feel they could comfortably fit full-size motion furniture in the available space. ● With strong product entries designed with consumers in mind, Action wants to ensure that those consumers are aware of these products. Action's entire national advertising strategy has been overhauled to stress very specific products during various times of the year, instead of broad-themed messages about the company generally. ● A completely integrated package of national advertising has been developed that covers consumer and trade publications with enhanced dealer advertising co-op and in-store promotion components, all rolling out on a product-by-product basis. ● Thorough demographic coverage is achieved through advertising in such print vehicles as *People*, *Reader's Digest*, *Southern Living* and *Sports Illustrated*, and in national broadcast outlets such as USA Network, FOX, ESPN, CNN and Home & Garden Television. ● This integrated package is aimed at a complete sell-through of product that will make dealers confident of a ready market filled with consumers who are excited with what they have learned about Action's ever-innovative furniture.



Quality Action Lane Hi-Leg recliners feature a reclining mechanism which easily tucks out of sight when not in use. These reclining chairs come in a variety of styles from traditional to contemporary and leg treatments including Queen Anne, Chippendale, and Ball and Claw.

As the leading manufacturer of motion upholstery, Action Lane offers a variety of styles ranging from traditional to transitional and from country to contemporary. Options include fully reclining love seats, supportive sleep sofas, sofas with fully reclining end units, and modular units that can be designed to fit any space.



quality reclining and motion furniture that will keep



Action Lane manufactures a wide variety of reclining chairs that offers multiple options such as arm storage, tray tables and massage features. These popular styles are available in many types of fabrics and leathers.

The chair and a half design is scaled to fit into smaller spaces which cannot hold a love seat or sofa and offers the added convenience of a hidden twin-size bed.



Action Lane has introduced the Studio collection of sleep sofas and double-reclining sofas which are designed for today's smaller living areas. These sofas are scaled to an overall length of less than 80 inches but offer all the comfort of regular size styles.



Action Lane achieves thorough demographic coverage in a variety of print vehicles, including People, Reader's Digest, Southern Living and Sports Illustrated.

the company on top of this growing industry segment.

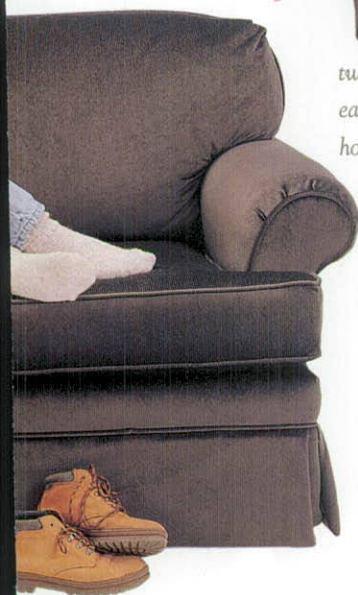


Action Lane has introduced the new Snuggler series which features a larger chair design with a hidden innerspring

twin-size mattress. Its matching ottoman opens easily to reveal a storage area large enough to hold blankets and pillows.



Action Lane's latest addition to its superb recliner line is the new and innovative Premiere Glider Recliner. The glider mechanism has been reinvented to offer smoother, more comfortable gliding action in reclining chairs.





THOMASVILLE FURNITURE INDUSTRIES, INC.

The highlight of the year — indeed the decade — was the addition of Thomasville Furniture Industries, Inc., the best-selling brand name in the high-end price segment and a significant force in the ready-to-assemble (RTA) and promotional furniture segments. ● Thomasville brings to the Furniture Brands International family 16 finished goods manufacturing plants with dedicated distribution through more than 400 galleries averaging 7,500 square feet of retail space and over 80 independently owned, freestanding Thomasville Home Furnishings Stores with an average of 15,000 square feet of space. Adding other retail outlets, Thomasville is supported by a total of over 4.5 million square feet of dedicated retail space. ● But the heart of the Thomasville story is high-quality, brand name furniture. Founded in 1904 in North Carolina as the Thomasville Chair Company, the company has consistently marketed products under the Thomasville name, and today is recognized internationally as a symbol of quality, craftsmanship, style and value. It is one of the six most widely recognized names in the furniture industry with a well-known commitment to the consumer: “*Beautiful furniture ... Beautifully made.*” ● Thomasville product selection is one of the broadest in the industry. Two principal product lines are manufactured under the Thomasville name: *case goods* — primarily bedroom, dining room, wall and entertainment furniture, occasional tables and accent items for the living room and family room; and *upholstered products* — primarily sofas, sleep sofas,

Thomasville will maintain the broad, superior

love seats, sectionals and chairs as well as reclining sofas, love seats, sectionals and chairs. ● Wide selection in case goods (wood products) is reflected by long product lists in each of the major style categories in home furnishings: American Traditional/Country, 18th Century, European Traditional, Casual Contemporary. ● In upholstered furniture, Thomasville has one of the broadest assortments under one brand name. The company offers more than 830 frames, 1,100 fabrics and 125 leathers on furniture marketed in three major styles: Traditional, American Traditional/Country and Casual Contemporary. ● Thomasville also manufactures and markets promotional assembled and RTA furniture under a separate brand name, serving entirely different market segments and adding significantly to the company's business opportunities. ● The company's contract division markets and sells case goods and upholstered furniture to three non-traditional markets: hospitality (hotels and motels), health care and governmental. ● A pioneer in the use of high technology for inventory management, Thomasville was one of the first in the furniture industry to respond to wood furniture inventory control issues by developing the Inventory Management Program (IMP) in the early 1980s. IMP has significantly reduced the time to market, resulting in retailers and consumers whose satisfaction is enhanced by timely deliveries. ● The company has a long history of new product innovations. For example, Thomasville recently introduced the American Revival and Stone Terrace collections which set records for dealer response. ● By focusing on changing consumer tastes, Thomasville believes it is well-positioned to continue to supply high-quality products at fair prices in all furniture categories.



The "cloud" sofa is upholstered in soft luxurious leather. Innovative products have made leather the fastest-growing part of the Thomasville upholstery line, which includes 125 leathers, 830 frames and 1,100 fabrics.

This stunning canopy bed from Thomasville's Stone Terrace collection is a big hit with younger consumers. Innovative products like this are based on Thomasville's broad experience and consumer research.



product selection that has made its name internationally



The elegant Grand Classics collection appeals to consumers who want a more sophisticated home. The collection is part of a wide assortment of case goods in major style categories.

The Lakehouse home theater collection is one of more than 50 styles that has established Thomasville as a leader in entertainment furniture, a segment that is growing as consumers spend more of their entertainment time in the home.

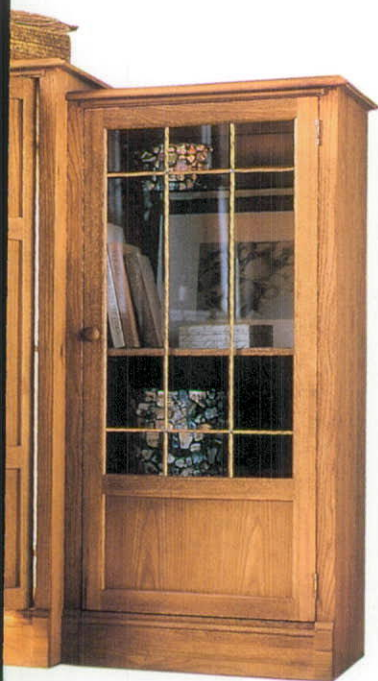


Stylishly casual and exceedingly comfortable, design leadership is fueling impressive growth in upholstery and occasional furniture, advancing Thomasville's reputation as a symbol of quality, craftsmanship and style.



Shelter magazine ads like this featured Elysee collection bedroom ... represent the Thomasville brand effectively in more than a dozen publications.

recognized as a symbol of quality, craftsmanship and value.



The Bridges collection brings style, simplicity and value together for casual-contemporary or traditional living areas. Thomasville product selection is one of the broadest in the industry.

Financial Review

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Management's Discussion and Analysis of Results of Operations and Financial Condition

General

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this document. In addition, management believes the following four factors have had a significant effect on its recent financial statements.

Acquisition of Thomasville. During the year ended December 31, 1995, the Company had two primary operating subsidiaries, Broyhill and Lane. On December 29, 1995, the Company acquired Thomasville. The transaction was accounted for as a purchase and, since the acquisition occurred as of the last business day of 1995, has been reflected in the Company's consolidated balance sheet. The Company's results of operations for 1995 do not include any of the operations of Thomasville. The cash portion of the acquisition of Thomasville was financed through funds obtained under the Secured Credit Agreement and the Receivables Securitization Facility.

Recent Industry Conditions. During 1995, residential furniture manufacturers' results were adversely affected by industry-wide price discounting and promotional activity in response to weaker consumer demand for durable goods. The Company believes that it minimized the impact of these factors on its operations by introducing new products and continued support of its brand names.

1994 Spin-Off Transactions. In order to focus on its core furniture operations, the Company completed a spin-off of its footwear subsidiaries in 1994. On November 17, 1994, the Company simultaneously refinanced the majority of its outstanding indebtedness and distributed to its stockholders all the stock of its former footwear subsidiaries, Converse Inc. and The Florsheim Shoe Company. Upon completion of this restructuring, the Company retained no ownership interest in or management control of the footwear businesses. Accordingly, the financial results of the footwear businesses have been reflected as discontinued operations for all applicable periods.

1992 Asset Revaluation (Fresh-Start Reporting). Included in the Company's statement of operations are depreciation and amortization charges related to adjustments of assets and liabilities to fair value made in 1992. These adjustments are a result of the Company's 1992 reorganization and the adoption of AICPA SOP 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" (commonly referred to as "fresh-start" reporting) and are not the result of historical capital expenditures.

Results of Operations

As an aid to understanding the Company's results of operations on a comparative basis, the following table has been prepared to set forth certain statements of operations and other data for 1995, 1994 and 1993. The results for these periods do not include any of the operations of Thomasville.

(Dollars in millions)	YEAR ENDED DECEMBER 31, 1995		YEAR ENDED DECEMBER 31, 1994		YEAR ENDED DECEMBER 31, 1993	
	DOLLARS	% OF NET SALES	DOLLARS	% OF NET SALES	DOLLARS	% OF NET SALES
Net sales	\$1,073.9	100.0%	\$1,072.7	100.0%	\$980.5	100.0%
Cost of operations	760.4	70.8	752.5	70.2	685.7	69.9
Selling, general and administrative expenses	198.3	18.5	199.3	18.6	186.2	19.0
Depreciation and amortization	36.1	3.3	35.8	3.3	34.5	3.5
Earnings from operations	79.1	7.4	85.1	7.9	74.1	7.6
Interest expense	33.9	3.2	37.9	3.5	38.6	3.9
Other income, net:						
Gain on insurance settlement	7.9	0.7	—	—	—	—
Other	3.9	0.4	1.6	0.1	1.8	0.1
Earnings before income tax expense, discontinued operations and extraordinary item	57.0	5.3	48.8	4.5	37.3	3.8
Income tax expense	22.8	2.1	20.9	1.9	15.9	1.6
Net earnings from continuing operations	\$ 34.2 ²	3.2%	\$ 27.9	2.6%	\$ 21.4	2.2%
Gross profit ¹	\$ 291.2	27.1%	\$ 298.7	27.8%	\$275.3	28.1%

¹ The Company believes that gross profit provides useful information regarding a company's financial performance. Gross profit should not be considered in isolation or as an alternative to net earnings, an indicator of the Company's operating performance, or an alternative to the Company's cash flow from operating activities as a measure of liquidity. Gross profit has been calculated by subtracting cost of operations and the portion of depreciation associated with cost of goods sold from net sales.

(Dollars in millions)	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Net sales	\$1,073.9	\$1,072.7	\$980.5
Cost of operations	760.4	752.5	685.7
Depreciation (associated with cost of goods sold)	22.3	21.5	19.5
Gross profit	\$ 291.2	\$ 298.7	\$275.3

² Net earnings from continuing operations before gain on insurance settlement, net of income tax expense, was \$29.5 million.

Year Ended December 31, 1995 Compared to Year Ended December 31, 1994

Net sales for 1995 were \$1.07 billion, approximately unchanged from 1994. The Company was able to maintain comparable net sales despite soft industry conditions and weaker consumer demand for durable goods through new product introductions at both Broyhill and Lane and continued support of its brand names.

Cost of operations for 1995 was \$760.4 million, compared to \$752.5 million for 1994, an increase of 1.0%. The increase in cost of operations as a percentage of net sales from 70.2% in 1994 to 70.8% in 1995, was primarily the result of unfavorable overhead absorption rates reflecting the Company's effort to maintain manufacturing utilization rates at levels necessary to balance inventory with incoming orders.

Selling, general and administrative expenses decreased to \$198.3 million in 1995 from \$199.3 million in 1994, a reduction of 0.5%. In 1995, such expenses included a \$2.7 million non-cash expense related to stock options. As a percentage of net sales, selling, general and administrative expenses were 18.5% in 1995 compared to 18.6% in 1994, reflecting the Company's successful implementation of its ongoing cost reduction programs.

Depreciation and amortization for 1995 was \$36.1 million, compared to \$35.8 million in 1994, an increase of 0.9%. The amount of depreciation and amortization attributable to the "fresh-start" reporting was \$15.9 million and \$16.9 million in 1995 and 1994, respectively.

Interest expense for 1995 totaled \$33.9 million and reflects twelve months of interest expense on the Company's debt structure, which was substantially refinanced as of December 29, 1995. Interest expense for 1995 was not comparable to interest expense for 1994 as a result of the previous refinancing of substantially all of the Company's debt in November 1994.

Other income, net for 1995 totaled \$11.8 million, compared to \$1.6 million in 1994. For 1995, other income consisted of a gain on insurance settlement of \$7.9 million pertaining to the November 1994 destruction of a particleboard plant, interest income on short-term investments of \$2.4 million and other miscellaneous income and (expense) items totaling \$1.5 million.

For 1995, the Company provided for income taxes totaling \$22.8 million on earnings before income tax expense, discontinued operations and extraordinary item, producing an effective tax rate of 40.0%, compared to an effective tax rate for 1994 of 42.8%. The effective tax rates for such years were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes. The effective income tax rate for 1995 was favorably impacted by special state income tax incentives granted in connection with the issuance of certain industrial revenue bonds on behalf of one of the Company's subsidiaries.

Net earnings per common share from continuing operations on a fully diluted basis were \$0.65 and \$0.54 for 1995 and 1994, respectively. Net earnings per common share from continuing operations before gain on insurance settlement, net of income tax expense, on a fully diluted basis was \$0.56 and \$0.54 for 1995 and 1994, respectively.

Weighted average shares used in the calculation of primary and fully diluted net earnings per common share for 1995 were 50,639,000 and 52,317,000, respectively.

Gross profit for 1995 was \$291.2 million, compared to \$298.7 million for 1994, a decrease of 2.5%. Gross profit as a percentage of net sales declined from 27.8% in 1994 to 27.1% in 1995, primarily as a result of lower factory utilization rates at certain of the Company's manufacturing facilities reflecting the Company's effort to balance inventories with incoming orders.

Year Ended December 31, 1994 Compared to Year Ended December 31, 1993

Net sales for 1994 were \$1.07 billion, representing an increase of 9.4% over net sales of \$980.5 million in 1993. The net sales increase for 1994 reflected an improving U.S. economy and favorable industry conditions as well as new product offerings and marketing programs that were well received by customers.

Cost of operations for 1994 was \$752.5 million, compared to \$685.7 million for 1993, an increase of 9.7%. The increase in cost of operations as a percentage of net sales from 69.9% in 1993 to 70.2% in 1994, was primarily the result of start-up costs at a new motion upholstery manufacturing facility, the testing of a new state-of-the-art finishing facility and the impact of an explosion and fire that destroyed a particleboard plant in November 1994, partially offset by favorable factory utilization rates.

Selling, general and administrative expenses for 1994 were \$199.3 million, representing an increase of 7.0% over selling, general and administrative expenses for 1993 of \$186.2 million. Selling, general and administrative expenses as a percentage of net sales decreased to 18.6% from 19.0%. The reduction in selling, general and administrative expenses as a percentage of net sales was attributable to the Company's emphasis on control and reduction of operating expenses, as well as a nonrecurring \$2.6 million charge included in 1993 related to the Company's 1992 reorganization.

Depreciation and amortization for 1994 was \$35.8 million, compared to \$34.5 million in 1993, an increase of 3.8%. The amount of depreciation and amortization attributed to the "fresh-start" reporting was \$16.9 million and \$16.5 million in 1994 and 1993, respectively.

Interest expense for 1994 totaled \$37.9 million compared to \$38.6 million in 1993. The reduction in interest expense was primarily due to refinancing the Company's long-term debt in conjunction with the November 17, 1994 spin-off distribution to shareholders of the Company's footwear segment.

Other income, net for 1994 and 1993 totaled \$1.6 million and \$1.8 million, respectively.

The Company's effective tax rate for 1994 and 1993 was 42.8% and 42.7%, respectively. The effective tax rates for such years were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes.

Net earnings per common share from continuing operations on a fully diluted basis were \$0.54 and \$0.41 for 1994 and 1993, respectively.

Gross profit for 1994 was \$298.7 million, representing an increase of 8.5% over gross profit for 1993 of \$275.3 million. The increase resulted from an increase in net sales, partially offset by a reduction in gross profit margin. The reduction in gross profit margin, to 27.8% in 1994 from 28.1% for 1993, was primarily a result of start-up costs at a new motion upholstery manufacturing facility, the testing of a state-of-the-art finishing facility and the impact of an explosion and fire that destroyed a particleboard plant in November 1994, partially offset by favorable factory utilization rates.

Financial Condition

Cash and cash equivalents at December 31, 1995 totaled \$26.4 million, compared to \$32.1 million at December 31, 1994. For 1995, net cash provided by operating activities totaled \$92.0 million. Net cash used by investing activities totaled \$370.5 million, including \$335.4 million related to the acquisition of Thomasville and \$35.6 million of capital expenditures incurred to add, upgrade or replace property, plant and equipment. Net cash provided by financing activities during 1995 totaled \$272.8 million.

Working capital was \$455.0 million at December 31, 1995, compared to \$308.3 million at December 31, 1994. The current ratio was 4.4 to 1 at December 31, 1995, compared to 4.2 to 1 at December 31, 1994. The increase in working capital between years is primarily the result of the acquisition of Thomasville.

At December 31, 1995, long-term debt, including current maturities, totaled \$723.7 million, compared to \$426.3 million at December 31, 1994. The increase in long-term debt resulted from entering into the Secured Credit Agreement and amending the Receivables Securitization Facility in conjunction with the December 29, 1995 Thomasville acquisition. The Company's debt-to-capitalization ratio was 70.6% at December 31, 1995, compared to 60.8% at December 31, 1994.

To meet short-term working capital and other financial requirements, the Company maintains a \$180 million revolving credit facility as part of its Secured Credit Agreement with a group of financial institutions. The revolving credit facility allows for both issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than \$60.0 million. Cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding. See Note 8 of the Notes to Consolidated Financial Statements for additional information. At December 31, 1995, there were \$71.0 million of cash borrowings outstanding under the revolving credit facility and \$28.3 million in letters of credit outstanding, leaving an excess of \$80.7 million available under the revolving credit facility.

In addition to the revolving credit facility, the Company also had \$20.5 million of excess availability under its Receivables Securitization Facility as of December 31, 1995.

The Company believes its revolving credit facility, together with cash generated from operations, will be adequate to meet liquidity requirements for the foreseeable future.

The Company maintains a significant capital expenditure program focusing on increasing manufacturing efficiency and expanding capacity as required. The Company's total capital expenditures were \$35.6 million, \$21.1 million and \$30.2 million for the years ended December 31, 1995, 1994 and 1993, respectively. These figures do not include the capital expenditures of Thomasville. Significant new projects during the past three years included a new upholstery manufacturing facility at Action Industries to meet the increased demand for the Company's recliners, motion furniture and sleep sofas and a state-of-the-art flat line finishing system at Lane. The capital expenditures for 1995 include \$18.2 million to construct a new state-of-the-art particleboard manufacturing facility at Broyhill which was primarily funded by proceeds from an insurance settlement, to replace the Company's facility that was destroyed by fire in November 1994. The Company believes that as a result of the availability of excess capacity in the Lane and Thomasville manufacturing facilities, the Company will be able to pursue its growth strategy over the next several years without the necessity of making significant additional capital expenditures to expand capacity.

*Accounting Standards
Not Yet Implemented*

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Under SFAS No. 123, companies can either measure the compensation cost of equity instruments issued under employee compensation plans using a fair value based method, or can continue to recognize compensation cost under the provisions of Accounting Principles Board Opinion No. 25 ("Opinion No. 25"). However, if the provisions of Opinion No. 25 are continued, pro forma disclosures of net earnings and earnings per share must be presented in the financial statements as if the fair value method had been applied. The Company intends to continue to recognize compensation costs under the provisions of Opinion No. 25, and upon adoption of SFAS No. 123 as of January 1, 1996, will disclose the effects of SFAS No. 123 on net earnings and earnings per share for 1995 and 1996.

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"). SFAS No. 121 requires that long-lived assets, certain identifiable intangibles and goodwill to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. SFAS No. 121 is effective for the Company in 1996. The Company believes the adoption of this accounting standard will not have a material impact on its operating results or financial condition.

Consolidated Balance Sheets

<i>(Dollars in thousands)</i>	DECEMBER 31, 1995	DECEMBER 31, 1994
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 26,412	\$ 32,145
Receivables, less allowances of \$20,724 (\$5,062 at December 31, 1994) (Note 9)	276,116	202,270
Inventories (Note 6)	269,677	155,031
Prepaid expenses and other current assets	17,888	14,325
Total current assets	590,093	403,771
Property, plant and equipment:		
Land	16,635	11,933
Buildings and improvements	166,214	111,076
Machinery and equipment	206,580	115,407
	389,429	238,416
Less accumulated depreciation	83,023	57,023
Net property, plant and equipment	306,406	181,393
Intangible assets (Note 7)	370,307	275,767
Other assets	24,933	20,804
	\$1,291,739	\$881,735
<i>Liabilities and Shareholders' Equity</i>		
Current liabilities:		
Current maturities of long-term debt (Note 9)	\$ 18,639	\$ 16,574
Accounts payable	53,093	37,721
Accrued employee compensation	29,020	19,771
Accrued interest expense	1,304	1,652
Other accrued expenses	33,001	19,730
Total current liabilities	135,057	95,448
Long-term debt, less current maturities (Note 9)	705,040	409,679
Other long-term liabilities	150,486	101,214
Shareholders' equity:		
Preferred stock, authorized 10,000,000 shares, no par value – issued, none	—	—
Common stock, authorized 100,000,000 shares, \$1.00 stated value – issued		
50,120,079 and 50,076,515 shares at December 31, 1995 and 1994 (Note 10)	50,120	50,076
Paid-in capital	218,156	220,788
Retained earnings	32,880	4,530
Total shareholders' equity	301,156	275,394
	\$1,291,739	\$881,735

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(Dollars in thousands except per share data)

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Net sales	\$1,073,889	\$1,072,696	\$980,532
Costs and expenses:			
Cost of operations	760,393	752,528	685,749
Selling, general and administrative expenses	198,321	199,333	186,205
Depreciation and amortization (includes \$15,922, \$16,900 and \$16,463 related to fair value adjustments)	36,104	35,776	34,455
Earnings from operations	79,071	85,059	74,123
Interest expense	33,845	37,886	38,621
Other income, net:			
Gain on insurance settlement (Note 15)	7,882	—	—
Other	3,930	1,668	1,764
Earnings before income tax expense, discontinued operations and extraordinary item	57,038	48,841	37,266
Income tax expense (Note 11)	22,815	20,908	15,924
Net earnings from continuing operations	34,223	27,933	21,342
Discontinued operations (Note 4):			
Earnings from operations, net of taxes	—	25,443	24,026
Loss on distribution, net of taxes	—	(15,104)	—
Net earnings before extraordinary item	34,223	38,272	45,368
Extraordinary item – early extinguishment of debt, net of tax benefit (Note 5)	(5,815)	—	—
Net earnings	\$ 28,408	\$ 38,272	\$ 45,368
Net earnings per common share – primary (Note 3):			
Net earnings from continuing operations	\$ 0.67	\$ 0.54	\$ 0.41
Discontinued operations	—	0.20	0.47
Extraordinary item – early extinguishment of debt	(0.11)	—	—
Net earnings per common share – primary	\$ 0.56	\$ 0.74	\$ 0.88
Net earnings per common share – fully diluted (Note 3):			
Net earnings from continuing operations	\$ 0.65	\$ 0.54	\$ 0.41
Discontinued operations	—	0.20	0.47
Extraordinary item – early extinguishment of debt	(0.11)	—	—
Net earnings per common share – fully diluted	\$ 0.54	\$ 0.74	\$ 0.88

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Cash Flows from Operating Activities:			
Net earnings	\$ 28,408	\$ 38,272	\$ 45,368
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net loss on early extinguishment of debt	5,815	—	—
Net earnings from discontinued operations	—	(10,339)	(24,026)
Depreciation of property, plant and equipment	26,371	25,675	24,304
Amortization of intangible and other assets	9,733	10,101	10,151
Noncash interest and other expense	2,150	196	2,097
(Increase) decrease in receivables	165	(27,979)	(3,237)
(Increase) decrease in inventories	3,340	(20,553)	(11,072)
(Increase) decrease in prepaid expenses and other assets	1,179	2,648	(714)
Increase (decrease) in accounts payable, accrued interest expense and other accrued expenses	6,133	15,788	(3,866)
Increase (decrease) in income taxes	8,661	(17,021)	3,938
Increase (decrease) in net deferred tax liabilities	(211)	7,904	969
Increase (decrease) in other long-term liabilities	246	(2,676)	(886)
Net cash provided by continuing operations	91,990	22,016	43,026
Net cash used by discontinued operations	—	(16,695)	(11,993)
Net cash provided by operating activities	91,990	5,321	31,033
Cash Flows from Investing Activities:			
Acquisition of business (Note 2)	(335,438)	—	—
Proceeds from the disposal of assets	519	5,621	358
Additions to property, plant and equipment	(35,616)	(21,108)	(30,197)
Net cash used by investing activities	(370,535)	(15,487)	(29,839)
Cash Flows from Financing Activities:			
Payments for debt issuance costs	(14,026)	(11,455)	—
Additions to long-term debt	576,000	423,000	—
Payments of long-term debt	(286,574)	(404,741)	(20,940)
Proceeds from the issuance of common stock	201	698	42
Payments for the repurchase of common stock warrants	(2,789)	—	—
Net cash provided (used) by financing activities	272,812	7,502	(20,898)
Net decrease in cash and cash equivalents	(5,733)	(2,664)	(19,704)
Cash and cash equivalents at beginning of period	32,145	34,809	54,513
Cash and cash equivalents at end of period	\$ 26,412	\$ 32,145	\$ 34,809
Supplemental Disclosure:			
Cash payments for income taxes, net	\$ 14,386	\$ 37,127	\$ 11,115
Cash payments for interest	\$ 32,010	\$ 39,345	\$ 38,454

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

<i>(Dollars in thousands)</i>	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
Balance December 31, 1992	\$50,000	\$225,400	\$17,714	\$293,114
Net earnings			45,368	45,368
Common stock activity:				
Stock option grants and exercises (Note 10)	4	988		992
Warrant exercises – 282 shares		3		3
Foreign currency translations			(920)	(920)
Balance December 31, 1993	50,004	226,391	62,162	338,557
Net earnings			38,272	38,272
Common stock activity:				
Stock option exercises (Note 10)	71	615		686
Warrant exercises – 983 shares	1	11		12
Foreign currency translations			2,659	2,659
Distribution of discontinued operations to shareholders		(6,229)	(98,563)	(104,792)
Balance December 31, 1994	50,076	220,788	4,530	275,394
Net earnings			28,408	28,408
Common stock activity:				
Stock option exercises (Note 10)	43	153		196
Warrant exercises – 564 shares	1	4		5
Warrants purchased – 1,489,422 shares		(2,789)		(2,789)
Foreign currency translations			(58)	(58)
Balance December 31, 1995	\$50,120	\$218,156	\$32,880	\$301,156

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)

1. The Company

Furniture Brands International, Inc. (formerly known as INTERCO INCORPORATED and referred to herein as the "Company") is a major manufacturer of residential furniture. During the year ended December 31, 1995, the Company had two primary operating subsidiaries, Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated. On December 29, 1995, the Company acquired Thomasville Furniture Industries, Inc. ("Thomasville"). In conjunction with the acquisition, the Company refinanced its Secured Credit Agreement and amended its Receivables Securitization Facility.

Substantially all of the Company's sales are made to unaffiliated furniture retailers. The Company has a diversified customer base with no one customer accounting for 10% or more of consolidated sales and no particular concentration of credit risk in one economic section. Foreign operations and sales are not material.

On November 17, 1994, the Company simultaneously refinanced the majority of its outstanding indebtedness and distributed to holders of its common stock the common stock of The Florsheim Shoe Company and the common stock of Converse Inc. (which, in aggregate, represented the Company's footwear segment). Upon completion of this restructuring, the Company retained no ownership interest or management control of the footwear businesses. Accordingly, the financial results of the footwear businesses have been reflected as discontinued operations for all applicable periods.

2. Acquisition of Business

On December 29, 1995, the Company acquired all of the outstanding stock of Thomasville Furniture Industries, Inc. The purchase price totaled \$331,200 plus the assumption of \$8,000 of long-term debt. The purchase price, including capitalized expenses which approximated \$4,200, was paid in cash. The transaction was accounted for as a purchase and, since the acquisition occurred as of the last business day of 1995, has been reflected in the Company's consolidated balance sheet. The Company's results of operations for 1995 do not include any of the operations of Thomasville. The total acquisition cost exceeded the estimated fair value of the net assets acquired by \$105,764, with such amount being recorded as an intangible asset.

The following unaudited summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company for 1995 and 1994 with those of Thomasville as if the transaction occurred at the beginning of each year presented.

YEAR ENDED DECEMBER 31,	1995	1994
Net sales	\$1,624,116	\$1,599,339
Net earnings from continuing operations	37,422	30,963
Net earnings	31,607	41,302
Net earnings per common share – fully diluted:		
Continuing operations	0.72	0.60
Total	0.61	0.80

The pro forma data has been adjusted, net of income taxes, to reflect interest expense and the amortization of the excess of cost over net assets acquired. Such pro forma amounts are not necessarily indicative of what the actual consolidated results of operations might have been if the acquisition had been effective at the beginning of each year presented.

3. Significant Accounting Policies

The significant accounting policies of the Company are set forth below.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Name Change

Effective March 1, 1996, the Company changed its name from INTERCO INCORPORATED to Furniture Brands International, Inc.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries, the majority of which are wholly owned. All material intercompany transactions are eliminated in consolidation. The Company's fiscal year ends on December 31. The operating companies included in the consolidated financial statements report their results of operations as of the Saturday closest to December 31. Accordingly, the results of operations will periodically include a 53 week fiscal year. 1995, 1994 and 1993 all represent 52 week fiscal years.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments are recorded at amortized cost, which approximates market.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when acquired. Expenditures for improvements are capitalized while normal repairs and maintenance are expensed as incurred. When properties are disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts, and gains or losses on the dispositions are reflected in results of operations. For financial reporting purposes, the Company utilizes both accelerated and straight-line methods of computing depreciation and amortization. Such expense is computed based on the estimated useful lives of the respective assets, which generally range from 3 to 45 years for buildings and improvements and from 3 to 12 years for machinery and equipment.

Intangible Assets

The Company emerged from Chapter 11 reorganization effective with the beginning of business on August 3, 1992. In accordance with generally accepted accounting principles, the Company was required to adopt "fresh-start" reporting which included adjusting all assets and liabilities to their fair values as of the effective date. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for all years presented.

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately \$146,000. This intangible asset is being amortized on a straight-line basis over a 20 year period.

Also in connection with the adoption of fresh-start reporting, the Company recorded approximately \$156,800 in fair value of trademarks and trade names based upon an independent appraisal. Such trademarks and trade names are being amortized on a straight-line basis over a 40 year period.

The excess of cost over net assets acquired in connection with the acquisition of Thomasville totaled approximately \$105,764. This intangible asset is being amortized on a straight-line basis over a 40 year period.

Income Tax Expense

Income tax expense is based on results of operations before discontinued operations and extraordinary items. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Extraordinary Item

In conjunction with the December 29, 1995 acquisition of Thomasville, the Company refinanced its Secured Credit Agreement and amended its Receivables Securitization Facility. As a result thereof, the Company charged to results of operations, as an extraordinary item, the deferred financing fees and expenses pertaining to such credit facilities.

Net Earnings Per Common Share

Net earnings per common share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year. The stock options and warrants outstanding (Note 10) are considered common stock equivalents. Weighted average shares used in the calculation of primary and fully diluted net earnings per common share for 1995 were 50,639,000 and 52,317,000, respectively.

Reclassification

Certain 1994 and 1993 amounts have been reclassified to conform to the 1995 presentation.

4. Discontinued Operations

On November 17, 1994, the Company distributed the common stock of each of The Florsheim Shoe Company and Converse Inc. (which, in aggregate, represented the Company's footwear segment) to its shareholders. In accordance with generally accepted accounting principles, the financial results for the footwear segment are reported as "Discontinued Operations" and the Company's financial results of prior periods were restated. Condensed results of the discontinued operations were as follows:

	ELEVEN MONTHS ENDED NOVEMBER 17, 1994	YEAR ENDED DECEMBER 31, 1993
Net sales	\$663,637	\$676,282
Earnings before income tax expense	\$ 40,047	\$ 38,706
Income tax expense	14,604	14,680
Net earnings	\$ 25,443	\$ 24,026
Loss on distribution, net of taxes of \$4,564	\$ (15,104)	\$ —

The loss on distribution reflects expenses related to: the distribution of the common stock of The Florsheim Shoe Company and Converse Inc. to the Company's shareholders, including certain expenses associated with establishing the capital structure of each company; compensation expense accrued as a result of adjustments required to be made to exercisable employee stock options; interest expense on certain long-term debt defeased, net of estimated interest income to be received from the trustees; and applicable income taxes.

Prior to the distribution of the common stock of The Florsheim Shoe Company to its shareholders, the Company had guaranteed certain of Florsheim's retail store operating leases. At December 31, 1995, the Company had guarantees outstanding on 101 retail store leases with a contingent liability totaling approximately \$37,400. The Florsheim Shoe Company has agreed to indemnify the Company against any losses incurred as a result of the lease guarantees.

5. *Extraordinary Item – Early Extinguishment of Debt*

In conjunction with the December 29, 1995 acquisition of Thomasville, the Company refinanced its Secured Credit Agreement and amended its Receivables Securitization Facility. As a result thereof, the Company charged to results of operations \$5,815, net of taxes of \$3,478, representing the deferred financing fees and expenses pertaining to such credit facilities. The charge was recorded as an extraordinary item.

6. *Inventories*

Inventories are summarized as follows:

	DECEMBER 31, 1995	DECEMBER 31, 1994
Finished products	\$114,857	\$ 66,445
Work-in-process	51,259	36,365
Raw materials	103,561	52,221
	<u>\$269,677</u>	<u>\$155,031</u>

7. *Intangible Assets*

Intangible assets include the following:

	DECEMBER 31, 1995	DECEMBER 31, 1994
Intangible assets, at cost:		
Reorganization value in excess of amounts allocable to identifiable assets	\$146,063	\$146,063
Trademarks and trade names	156,828	156,828
Excess of cost over net assets acquired	105,764	—
	<u>408,655</u>	<u>302,891</u>
Less accumulated amortization	<u>38,348</u>	<u>27,124</u>
	<u>\$370,307</u>	<u>\$275,767</u>

8. *Short-Term Financing*

In conjunction with the December 29, 1995 acquisition of Thomasville and related refinancing of certain long-term debt, the Company entered into a \$630,000 Secured Credit Agreement which includes a \$180,000 revolving credit facility. The revolving credit facility allows for issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than \$60,000, with cash borrowings limited only by the facility's maximum availability less letters of credit outstanding. On December 29, 1995, \$71,000 in cash borrowings were outstanding under the revolving credit facility as a result of the acquisition of Thomasville. Cash borrowings from the revolving credit facility have no fixed amortization and, since the facility does not mature until December 2001, are classified as long-term debt.

As part of the Secured Credit Agreement, the revolving credit facility is secured by a first priority lien on and security interest in substantially all of the Company's assets except for trade receivables. See Note 9 – Long-Term Debt for further information regarding the Secured Credit Agreement.

The outstanding cash borrowings under the revolving credit facility bear interest at a base rate plus 1.125% or at an adjusted Eurodollar rate plus 2.125%, depending upon the type of loan the Company executes. The "spread" or margin over the base rate and Eurodollar rate is subject to a "step-down" or reduction when the Company achieves certain financial performance ratios. At December 31, 1995, there was \$71,000 of cash borrowings outstanding under the revolving credit facility, all of which are classified as long-term debt.

Under the letter of credit facility, a fee of 2.125% per annum (subject to the same "step-down" as noted earlier) is assessed for the account of the lenders ratably. A further fee of 0.25% is assessed on stand-by letters of credit representing a facing fee. A customary administrative charge for processing letters of credit is also payable to the relevant issuing bank. Letter of credit fees are payable quarterly in arrears. At December 31, 1995, there were \$28,300 in letters of credit outstanding under the revolving credit facility.

9. Long-Term Debt

Long-term debt consisted of the following:

	DECEMBER 31, 1995	DECEMBER 31, 1994
Secured credit agreement	\$521,000	\$285,000
Receivables securitization facility	185,000	130,000
Other	17,679	11,253
	723,679	426,253
Less current maturities	18,639	16,574
	<u>\$705,040</u>	<u>\$409,679</u>

On December 29, 1995, in conjunction with the acquisition of Thomasville, the Company refinanced its Secured Credit Agreement by entering into a new \$630,000 facility with a group of financial institutions. The Company also amended its Receivables Securitization Facility to increase its maximum availability to \$225,000. Proceeds from these loan facilities were used to repay the existing secured credit facility and to acquire Thomasville.

The following discussion summarizes certain provisions of the long-term debt.

Secured Credit Agreement

The common stock of the Company's principal subsidiaries, substantially all of the Company's cash, working capital (other than trade receivables) and property, plant and equipment, have been pledged or mortgaged as security for the Secured Credit Agreement. The Secured Credit Agreement contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures and incurrence of debt, and requires the Company to achieve certain financial ratios, some of which become more restrictive over time.

The Secured Credit Agreement consists of the revolving credit facility discussed in Note 8 and three term loan facilities with the following terms:

	DECEMBER 31, 1995 BALANCE	MATURITY DATE	INTEREST RATE MARGIN	
			BASE RATE	EURODOLLAR RATE
Term loan "A" facility	\$250,000	December 29, 2001	1.125%	2.125%
Term loan "B" facility	100,000	March 29, 2003	1.625%	2.625%
Term loan "C" facility	100,000	March 29, 2004	2.125%	3.125%

Similar to the revolving credit facility, the "spread" or margin over the base rate and Eurodollar rate is subject to a "step-down" or reduction when the Company achieves certain financial performance ratios. Interest is payable based upon the type (base rate or Eurodollar rate) of loan the Company executes; however, interest is payable quarterly at a minimum. At December 31, 1995, all loans outstanding under the Secured Credit Agreement were based on the Eurodollar rate.

Mandatory principal payments of the term loan "A" facility are semi-annual (last business day of June and December). Mandatory principal payments of the term loan "B" facility are semi-annual through 2001 and convert to quarterly payments beginning in March 2002. Mandatory principal payments of the term loan "C" facility are semi-annual through 2002 and convert to quarterly payments beginning in June 2003. Annual mandatory principal payments are as follows:

YEAR	TERM LOAN FACILITY			TOTAL
	A	B	C	
1996	\$15,000	\$ 1,000	\$ 1,000	\$17,000
1997	20,000	1,000	1,000	22,000
1998	25,000	1,000	1,000	27,000
1999	50,000	1,000	1,000	52,000
2000	65,000	1,000	1,000	67,000
2001	75,000	1,000	1,000	77,000
2002	—	75,200	1,000	76,200
2003	—	18,800	69,750	88,550
2004	—	—	23,250	23,250

In addition to mandatory principal payments, the term loan facilities require principal payments from excess cash flow (as defined in the Secured Credit Agreement), and a portion of the net proceeds realized from (i) the sale, conveyance or other disposition of collateral securing the debt or (ii) the sale by the Company for its own account of additional subordinated debt and/or shares of its preferred and/or common stock. The revolving credit facility has no mandatory principal payments prior to its maturity date.

Receivables Securitization Facility

The amended Receivables Securitization Facility is an obligation of the Company which matures on December 29, 2000 and is secured by substantially all of the Company's trade receivables. The facility operates through use of a special purpose subsidiary (Interco Receivables Corp.) which "buys" trade receivables from the operating companies and "sells" interests in same to a third party financial institution, which uses the interests as collateral for borrowings in the commercial paper market to fund the purchases. The Company accounts for this facility as long-term debt.

The Company pays a commercial paper index rate on all funds received (outstanding) on the facility. In addition, a program fee of 0.75% per annum on the entire \$225,000 facility is payable on a monthly basis. The balance outstanding at December 31, 1995 was \$185,000. The Company may increase or decrease its use of the facility on a monthly basis subject to the availability of sufficient trade receivables and the facility's maximum amount (\$225,000). As of December 31, 1995, the Company had \$20,474 in excess availability under the facility.

Other

Other long-term debt consists of various industrial revenue bonds and other debt instruments with interest rates ranging from approximately 4.0% to 9.0%. Annual mandatory principal payments are required through 2004.

Other Information

Maturities of long-term debt are \$18,639, \$23,709, \$28,531, \$52,800 and \$252,800 for years 1996 through 2000, respectively.

10. Common Stock

The Company's restated certificate of incorporation includes authorization to issue up to 100.0 million shares of common stock with a \$1.00 per share stated value. As of December 31, 1995, 50,120,079 shares of common stock were issued and outstanding. It is not presently anticipated that dividends will be paid on common stock in the foreseeable future and certain of the debt instruments to which the Company is a party restrict the payment of dividends.

Shares of common stock were reserved for the following purposes at December 31, 1995:

	NUMBER OF SHARES
Common stock options:	
Granted	
Available for grant	2,498,000
Common stock warrants	740,000
	6,907,198
	10,145,198

Under the Company's 1992 Stock Option Plan, certain key employees may be granted non-qualified options, incentive options or combinations thereof. Nonqualified and incentive options may be granted to expire up to ten years after the date of grant. Options granted become exercisable at varying dates depending upon the achievement of certain performance targets and/or the passage of certain time periods.

The 1992 Stock Option Plan authorizes grants of options to purchase common shares at less than fair market value on the date of grant. During 1993, an option grant of 250 thousand common shares was made by the Company at less than market value resulting in a credit to paid-in capital and a charge to compensation expense of approximately \$1.0 million.

Changes in options granted and outstanding are summarized as follows:

	YEAR ENDED DECEMBER 31, 1995		YEAR ENDED DECEMBER 31, 1994		YEAR ENDED DECEMBER 31, 1993	
	SHARES	AVERAGE PRICE	SHARES	AVERAGE PRICE	SHARES	AVERAGE PRICE
Beginning of period	2,643,000	\$4.64	2,915,000	\$7.39	2,500,000	\$7.00
Granted	125,000	6.42	917,000	7.85	461,000	9.58
Exercised	(43,000)	3.38	(71,250)	7.00	(4,000)	7.00
Cancelled	(227,000)	4.68	(1,117,750)	7.82	(42,000)	7.92
End of period	2,498,000	\$4.75	2,643,000	\$4.64	2,915,000	\$7.39
Exercisable at end of period	1,346,750		954,750		586,750	

As a result of the November 17, 1994 distribution of the common stock of The Florsheim Shoe Company and Converse Inc. to the Company's shareholders, options granted to the employees of those operating companies were cancelled. In addition, the exercise prices of the remaining options were adjusted to reflect the distribution in accordance with the antidilution provisions of the 1992 Stock Option Plan.

As of December 31, 1995, the Company had outstanding approximately 6.9 million warrants to purchase common stock. Each warrant entitles the holder thereof to purchase one share of common stock at \$7.13 per share (as adjusted for the November 17, 1994 distribution to shareholders of the Company's former footwear segment). The warrants, which expire on August 3, 1999, were issued in two series; Series 1 warrants include a five year call protection, whereas Series 2 warrants do not include such a feature. All other terms and conditions of the two series of warrants are identical. The warrants trade on the over-the-counter market.

11. Income Taxes

Income tax expense was comprised of the following:

YEAR ENDED DECEMBER 31,	1995	1994	1993
Current:			
Federal	\$20,499	\$10,095	\$11,788
State and local	2,527	2,909	3,167
	23,026	13,004	14,955
Deferred	(211)	7,904	969
	\$22,815	\$20,908	\$15,924

The following table reconciles the differences between the Federal corporate statutory rate and the Company's effective income tax rate:

YEAR ENDED DECEMBER 31,	1995	1994	1993
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of			
Federal tax benefit	2.6	2.9	4.2
Amortization of excess reorganization value	4.5	5.2	6.8
Other	(2.1)	(0.3)	(3.3)
Effective income tax rate	40.0%	42.8%	42.7%

The sources of the tax effects for temporary differences that give rise to the deferred tax assets and liabilities were as follows:

	DECEMBER 31, 1995	DECEMBER 31, 1994
Deferred tax assets:		
Employee postretirement benefits other than pensions	\$ 10,954	\$ 833
Expense accruals	9,267	6,109
Valuation reserves	5,147	3,027
Inventory costs capitalized	1,785	1,534
Other	919	1,571
Total gross deferred tax assets	28,072	13,074
Valuation allowance	—	—
Total net deferred tax assets	28,072	13,074
Deferred tax liabilities:		
Fair value adjustments	(84,263)	(70,690)
Employee pension plans	(1,990)	(6,139)
Depreciation	(9,029)	(4,441)
Other	(8,350)	(7,575)
Total deferred tax liabilities	(103,632)	(88,845)
Net deferred tax liabilities	\$ (75,560)	\$(75,771)

The net deferred tax liabilities are included in the consolidated balance sheets as follows:

	DECEMBER 31, 1995	DECEMBER 31, 1994
Prepaid expenses and other current assets	\$ 14,328	\$ 11,292
Other long-term liabilities	(89,888)	(87,063)
	<u>\$(75,560)</u>	<u>\$(75,771)</u>

The Federal income tax returns of the Company and its major subsidiaries have been examined by the Internal Revenue Service ("IRS") through February 23, 1991.

12. Employee Benefits

The Company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for 1995, 1994 and 1993 was \$7,070, \$6,303 and \$5,716, respectively.

Company-Sponsored Defined Benefit Plans

Annual cost for defined benefit plans is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

It is the Company's practice to fund pension costs to the extent that such costs are tax deductible and in accordance with ERISA. The assets of the various plans include corporate equities, government securities, corporate debt securities and insurance contracts. The table below summarizes the funded status of the Company-sponsored defined benefit plans.

	DECEMBER 31, 1995	DECEMBER 31, 1994
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$217,879	\$179,006
Accumulated benefit obligation	\$222,256	\$182,903
Projected benefit obligation	\$254,815	\$202,148
Plan assets at fair value	252,810	217,535
Projected benefit obligation (greater than) less than plan assets	(2,005)	15,387
Unrecognized net loss	5,211	3,886
Unrecognized prior service cost	1,267	(515)
Prepaid pension cost	\$ 4,473	\$ 18,758

Net periodic pension cost for 1995, 1994 and 1993 includes the following components:

YEAR ENDED DECEMBER 31,	1995	1994	1993
Service cost-benefits earned during the period	\$ 3,544	\$ 4,758	\$ 4,575
Interest cost on the projected benefit obligation	17,005	13,682	12,818
Actual return on plan assets	(49,272)	(159)	(16,863)
Net amortization and deferral	31,566	(16,297)	1,377
Net periodic pension cost	\$ 2,843	\$ 1,984	\$ 1,907

Employees are covered primarily by noncontributory plans, funded by Company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits are based upon service and pay with employees becoming vested upon completion of five years of service.

The expected long-term rate of return on plan assets was 8.5% in 1995 and 8.0% - 9.5% in 1994 and 1993. Measurement of the projected benefit obligation was based upon a weighted average discount rate of 7.25%, 8.0% and 7.25% and a long-term rate of compensation increase of 4.5%, 4.5% and 4.5% for 1995, 1994 and 1993, respectively.

Other Retirement Plans and Benefits

In addition to defined benefit plans, the Company makes contributions to a defined contribution plan and sponsors employee savings plans. The cost of these plans is included in the total cost for all plans reflected above.

In addition to pension and other supplemental benefits, certain employees and retirees are currently provided with specified health care and life insurance benefits. Eligibility requirements generally state that benefits are available to employees who retire after a certain age with specified years of service if they agree to contribute a portion of the cost. The Company has reserved the right to modify or terminate these benefits. Health care and life insurance benefits are provided to both retired and active employees through medical benefit trusts, third-party administrators and insurance companies.

The following table sets forth the financial status of postretirement benefits other than pensions as of December 31, 1995. Until the acquisition of Thomasville as of December 29, 1995, postretirement benefits other than pensions were considered immaterial and not previously reported.

DECEMBER 31, 1995	
Accumulated postretirement benefit obligation:	
Retirees	\$ 9,546
Fully eligible plan participants	2,094
Other active plan participants	20,181
Total	31,821
Plan assets at fair value	—
Accumulated postretirement benefit obligation in excess of plan assets	31,821
Unrecognized net gain	85
Accrued postretirement benefit obligation	\$31,906

For measurement purposes, an 11.0% annual rate of increase in the cost of health care benefits for pre-age 65 retirees and 11.0% for post-age 65 retirees was assumed in 1995. For 1995, the rates are assumed to decrease gradually to 6.0% in the year 2000 and remain at those levels thereafter. Increasing the health care cost trend rates by one percentage point in each year would have resulted in an increase in the accumulated postretirement benefit obligation as of December 31, 1995 by approximately \$3,098 and the net periodic cost by \$6 for the year.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.25% for 1995.

13. Lease Commitments

Certain of the Company's real properties and equipment are operated under lease agreements expiring at various dates through the year 2005. Leases covering equipment generally require, in addition to stated minimums, contingent rentals based on usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Rental expense under operating leases was as follows:

YEAR ENDED DECEMBER 31,	1995	1994	1993
Basic rentals	\$11,516	\$11,553	\$10,704
Contingent rentals	779	385	570
	12,295	11,938	11,274
Less sublease rentals	54	54	132
	\$12,241	\$11,884	\$11,142

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of \$616 at December 31, 1995, aggregate \$36,023. Annual minimum payments under operating leases are \$10,715, \$7,840, \$6,470, \$5,005 and \$2,852 for 1996 through 2000, respectively.

14. Fair Value of Financial Instruments

The Company considers the carrying amounts of cash and cash equivalents, receivables and accounts payable to approximate fair value because of the short maturity of these financial instruments.

Amounts outstanding under the Secured Credit Agreement and Receivables Securitization Facility are also considered to be carried on the financial statements at their estimated fair values because they were entered into recently and both accrue interest at rates which generally fluctuate with interest rate trends.

Amounts outstanding under the other long-term debt are considered special purpose financing as an incentive to acquire specific real estate and for settlement of certain claims. Accordingly, the Company believes the carrying amounts approximate fair value given the circumstances under which such financings were acquired.

15. Gain on Insurance Settlement

On November 20, 1994, an explosion and fire destroyed a particleboard plant owned and operated by the Company. During 1995, the Company rebuilt the plant with proceeds received from the insurance settlement. As a result thereof, a gain on insurance settlement, totaling \$7,882, was recorded during the fourth quarter of 1995. The gain includes all costs associated with the claim with no further expenses or liability anticipated.

16. Litigation

The Company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations of the Company and its subsidiaries.

17. Quarterly Financial Information (Unaudited)

Following is a summary of unaudited quarterly information:

	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
Year ended December 31, 1995:				
Net sales	\$279,023	\$ 258,626	\$ 250,336	\$ 285,904
Gross profit	76,932	70,557	67,399	76,349
Net earnings:				
Continuing operations	14,797	6,196	5,487	7,743
Extraordinary item	(5,815)	—	—	—
Total	\$ 8,982	\$ 6,196	\$ 5,487	\$ 7,743
Net earnings per common share – primary:				
Continuing operations	\$ 0.29	\$ 0.12	\$ 0.11	\$ 0.15
Extraordinary item	(0.11)	—	—	—
Total	\$ 0.18	\$ 0.12	\$ 0.11	\$ 0.15
Net earnings per common share – fully diluted:				
Continuing operations	\$ 0.27	\$ 0.12	\$ 0.11	\$ 0.15
Extraordinary item	(0.11)	—	—	—
Total	\$ 0.16	\$ 0.12	\$ 0.11	\$ 0.15
Common stock price range (High-Low)	\$ 9 ⁷ / ₈ -7	\$ 8 ¹ / ₈ -5 ³ / ₄	\$ 6 ⁷ / ₈ -5 ³ / ₄	\$ 7 ¹ / ₈ -6 ¹ / ₈
Year ended December 31, 1994:				
Net sales	\$277,244	\$ 254,496	\$ 272,203	\$ 268,753
Gross profit	76,937	71,697	75,894	74,184
Net earnings:				
Continuing operations	10,796	5,366	5,863	5,908
Discontinued operations	(11,952)	7,042	5,480	9,769
Total	\$ (1,156)	\$ 12,408	\$ 11,343	\$ 15,677
Net earnings per common share – primary and fully diluted:				
Continuing operations	\$ 0.21	\$ 0.10	\$ 0.12	\$ 0.11
Discontinued operations	(0.23)	0.14	0.10	0.19
Total	\$ (0.02)	\$ 0.24	\$ 0.22	\$ 0.30
Common stock price range (High-Low)	\$14 ⁷ / ₈ -6 ¹ / ₈	\$15 ³ / ₄ -13 ³ / ₄	\$14 ⁷ / ₈ -12 ³ / ₈	\$15 ³ / ₄ -13 ¹ / ₈

The Company has not paid cash dividends on its common stock during the two years ended December 31, 1995. The closing market price of the Company's common stock on December 31, 1995 was \$9.00 per share.

The 1994 fourth quarter common stock price range reflects the impact of the November 17, 1994 distribution of the discontinued operations to the Company's shareholders.

Independent Auditors' Report

*The Board of Directors
and Shareholders
Furniture Brands
International, Inc.:*

We have audited the accompanying consolidated balance sheets of Furniture Brands International, Inc. (formerly INTERCO INCORPORATED) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Furniture Brands International, Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

St. Louis, Missouri
January 30, 1996

Five Year Consolidated Financial Review

(Dollars in thousands except per share data)	YEAR ENDED	YEAR ENDED	YEAR ENDED	FIVE MONTHS ENDED ¹		YEAR ENDED
	DECEMBER 31,	DECEMBER 31,	DECEMBER 31,	DECEMBER 31,	AUGUST 2,	FEBRUARY 29,
	1995	1994	1993	1992	1992	1992
Summary of Operations:						
Net sales	\$1,073,889	\$1,072,696	\$980,532	\$394,873	\$ 356,705	\$ 819,359
Gross profit	291,237	298,712	275,323	108,858	96,849	229,219
Interest expense	33,845	37,886	38,621	16,358	29,689	88,310
Earnings (loss) before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of accounting change	57,038	48,841	37,266	18,045	247,716	(39,087)
Income tax expense (benefit)	22,815	20,908	15,924	6,807	(1,206)	(3,589)
Net earnings (loss) from continuing operations	34,223 ⁴	27,933	21,342	11,238	248,922	(35,498)
Discontinued operations	—	10,339	24,026	10,088	(136,347)	(13,394)
Extraordinary item	(5,815)	—	—	—	1,075,466	—
Cumulative effect of accounting change	—	—	—	—	(1,719)	—
Net earnings (loss)	\$ 28,408	\$ 38,272	\$ 45,368	\$ 21,326	\$1,186,322	\$ (48,892)
Per share of common stock — fully diluted:						
Net earnings (loss) from continuing operations	\$.65 ⁴	\$ 0.54	\$ 0.41	\$ 0.23	\$ 6.42	\$ (0.92)
Discontinued operations	—	0.20	0.47	0.20	(3.52)	(0.34)
Extraordinary item	(.11)	—	—	—	27.72	—
Cumulative effect of accounting change	—	—	—	—	(0.04)	—
Net earnings (loss)	\$.54	\$ 0.74	\$ 0.88	\$ 0.43	\$ 30.58	\$ (1.26)
Weighted average common and common equivalent shares outstanding — fully diluted (in thousands)						
	52,317	51,506	51,397	50,000	38,796	38,731
Other Information (continuing operations):						
Working capital	\$ 455,036	\$ 308,323	\$271,588	\$261,967	\$ 261,357	\$ 426,852
Property, plant and equipment, net	306,406	181,393	191,581	186,046	189,039 ²	114,239
Capital expenditures	35,616	21,108	30,197	8,850	7,041	20,099
Total assets	1,291,739	881,735	858,163	870,115	893,012	800,840
Long-term debt	705,040	409,679	403,255	407,898	443,165	— ³
Shareholders' equity (deficit)	\$ 301,156	\$ 275,394	\$338,557	\$293,114	\$ 275,400	\$ (1,186,522)

¹ Effective December 31, 1992, the Company changed its fiscal year to end on December 31. The Company's adoption of fresh-start reporting required reporting calendar 1992 results in two 22 week periods.

² In connection with the adoption of fresh-start reporting, property, plant and equipment was adjusted to fair value resulting in an increase of approximately \$77,500 as of August 2, 1992.

³ Long-term debt (including debt pertaining to discontinued operations) totaling \$1,055,132 was reclassified to liabilities subject to compromise as of February 29, 1992.

⁴ Net earnings from continuing operations before gain on insurance settlement, net of income tax expense, and net earnings per common share from continuing operations before gain on insurance settlement, net of income tax expense, were \$29,463 and \$0.56, respectively.

Board of Directors, Officers and Investor Information

Board of Directors

Leon D. Black
Officer of Apollo Capital Management, Inc.

Michael S. Gross 1*, 3
Officer of Apollo Capital Management, Inc.

John J. Hannan 1
Officer of Apollo Capital Management, Inc.

Joshua J. Harris
Officer of Apollo Capital Management, Inc.

Bruce A. Karsh 2, 3
President of Oaktree Capital Management, LLC

John H. Kissick 3
Officer of Lion Capital Management, Inc.

Donald E. Lasater 2, 3*
*Retired Chairman of the Board and
Chief Executive Officer of
Mercantile Bancorporation Inc.*

Lee M. Liberman 2*
*Retired Chairman of the Board and
Chief Executive Officer of
Laclede Gas Company*

Richard B. Loynd 1
*Chairman of the Board, President and
Chief Executive Officer of the Company*

John J. Ryan III
*Director of Artemis S.A. and
Financiere Pinault S.A.*

Michael D. Weiner
Officer of Apollo Capital Management, Inc.

Committees of the Board

1. Executive Committee
2. Audit Committee
3. Executive Compensation and
Stock Option Committee

(* indicates Committee Chairman)

Corporate Officers

Richard B. Loynd
*Chairman of the Board,
President and Chief Executive Officer*

David P. Howard
Vice-President and Chief Financial Officer

Lynn Chipperfield
Vice-President, General Counsel and Secretary

Steven W. Alstadt
Controller and Chief Accounting Officer

Robert T. Hensley, Jr.
Treasurer

James K. Pendleton
*Associate General Counsel and
Assistant Secretary*

Presidents of Operating Companies

Brent B. Kincaid
Broyhill Furniture Industries, Inc.

K. Scott Tyler, Jr.
The Lane Company, Incorporated

Frederick B. Starr
Thomasville Furniture Industries, Inc.

Transfer Agents and Registrars for Common Stock

KeyCorp Shareholder Services, Inc.
One Mercantile Center, Suite 2120
St. Louis, Missouri 63101
(314) 241-4002

First Chicago Trust Company
of New York
P.O. Box 2534, Suite 4692
Jersey City, New Jersey 07303
(201) 222-4115

Exchange Listing

Common shares are listed on the
New York Stock Exchange
(trading symbol: FBN).

Corporate Offices

101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

Annual Meeting

The Annual Meeting of Shareholders will
be held at 10:00 a.m. on Tuesday, April
23, 1996, at the Rihga Royal Hotel, 151
West 54th Street, New York, New York.
Notice of the meeting and a proxy state-
ment will be sent to shareholders in a
separate mailing.

Form 10-K Annual Report

Shareholders may obtain a copy of the
current Form 10-K filed with the
Securities and Exchange Commission
by writing to the Treasurer of
Furniture Brands International at the
Corporate Offices.

Independent Auditors

KPMG Peat Marwick LLP
1010 Market Street
St. Louis, Missouri 63101
(314) 444-1400

Furniture Brands
INTERNATIONAL

St. Louis, Missouri